

PALOMA PETROLEUM LTD.**Consolidated Statement of Changes in
Financial Position****Six months ended June 30, 1981**

(with comparative figures for 1980)

	1981	1980
	(Unaudited)	(Unaudited)
Funds provided from:	\$2,385,129	2,337,037
Operations.....	—	161,034
Proceeds on sale of property, plant and equipment.....	75,190	80,300
Issue of share capital.....	1,254,250	—
Increase in long term debt.....		
Prepayment for future gas deliveries.....	85,559	7,651
Reduction in other assets.....	28,254	7,688
	3,828,382	2,593,710
Funds applied to:		
Purchase of property, plant and equipment.....	4,701,527	5,820,371
Reduction in long term debt.....	248,192	36,074
	4,949,719	5,856,445
Decrease in working capital.....	1,121,337	3,262,735
Working capital, beginning of period...	3,542,093	8,128,349
Working capital, end of period.....	\$2,420,756	4,865,614

PALOMA PETROLEUM LTD.1150, 727 - 7th Avenue S.W.,
Calgary, Alberta T2P 0Z7**Paloma**
Petroleum Ltd.**INTERIM REPORT**
for the six months ended
June 30, 1981

TO THE SHAREHOLDERS:

Revenues increased 4% to \$4,372,228 in the first six months of 1981 from \$4,197,322 for the same period in 1980. The Petroleum and Gas Revenue Tax caused a reduction in 1981 revenues of \$504,199. Cash flow from operations of \$2,385,129 compares closely with \$2,337,037 for the first half of 1980. Net earnings for the six-month period were \$656,194, down from \$889,966 in 1980. The reduced earnings are the result of the P.G.R.T. and higher expenses, especially interest charges.

Gross natural gas production in the first half of 1981 was up 29% to 2,258 million cubic feet from 1,755 million cubic feet for the same period in 1980. Production of crude oil and condensate was 74,760 barrels compared to 78,767 in the first six months of 1980.

Paloma's drilling results in the first half were as follows:

	GROSS	NET
Wells drilled.....	24	9.65
Gas.....	15	6.50
Oil.....	5	1.55
Dry.....	4	1.60

Six of the above wells were drilled in the U.S., five completed as producers.

The Company's U.S. operations this year have resulted in 2 gas and condensate wells in the Texas Austin Chalk play (Paloma 10-12½%) which are producing in aggregate 2.5 million cubic feet/day and 40 barrels of condensate/day; 160 barrels of oil/day from the first well in the Marietta Basin, south Oklahoma (Paloma 12½%); and a dry hole in Plaquemines Parish, Louisiana (Paloma 10%). Currently being drilled or completed are 3 wells in the Austin Chalk Play (Paloma 12½%); 2 wells in west Texas (Paloma 10%); and 3 wells in south Oklahoma (Paloma 12½-18¾%).

In east Kansas, we have shot half of a 300-mile seismic program which is part of an oil play involving 150,000 acres of option land. Paloma's net interest is 25%. We plan to drill at least 2 wells in 1981.

In Canada, the Company continues to concentrate in the Birch Wavy Lake gas contract area and has

completed 7 gas wells to date in 1981. We expect to have all of these wells on stream by early 1982, increasing our net production by approximately 1.75 million cubic feet/day.

There is a significant increase in Paloma's gas reserves since January 1, 1981. Our preliminary estimate of proved reserves as of August 15, 1981 is 114 billion cubic feet compared to 93 billion cubic feet at the beginning of the year. The Dunvegan field has been upgraded with additional facilities and wells and this has caused us to reclassify certain reserves from probable to proven. The other factor is the success of our current drilling campaign which has added 12.8 Bcf proved and 5.4 Bcf of probable additional gas reserves. These additions in reserves do not include new reserves of both oil and gas found in the U.S. since January 1, 1981 which we have not attempted to estimate due to lack of producing history.

Paloma plans to maintain its current level of activity in both Canada and the United States. Pending an improvement in gas markets and oil prices in Canada, we shall continue to concentrate in the Birch Wavy Lake gas contract area where we have seismic surveys in progress and new prospects developing. Meanwhile, in the United States we have exposure in some good areas with ongoing exploration drilling and sufficient land holdings with which to follow up commercial discoveries.

We are working diligently to market our shut-in gas which amounts to approximately 1/3 of the Company's total reserves. The Company has contracted sufficient gas to Pan Alberta to be selling them around 2.7 million cubic feet per day by late next year. With regard to most of our remaining shut-in gas we are looking into opportunities to sell to industrial users.

We are pleased with the growth in gas reserves and forecast a steady growth in producing rates.

August 19, 1981
Calgary, Alberta

John E. Stobart
President



PALOMA PETROLEUM LTD.

Consolidated Statement of Earnings Six months ended June 30, 1981

(With comparative figures for 1980)

	1981	1980
	(Unaudited)	(Unaudited)
Revenues:		
Oil and gas net of royalties		
\$2,754,075(1980 - \$2,028,278) ..	\$4,334,331	3,396,356
Less: Petroleum and Gas Revenue Tax	504,199	—
Food services and real estate	3,830,132	3,396,356
Other.....	444,230	433,998
	97,866	366,968
	4,372,228	4,197,322
Expenses:		
Oil and gas production.....	471,329	416,043
Food services and real estate	292,875	287,325
General and administrative	538,240	445,066
Interest on long term debt.....	1,146,997	1,039,987
Depletion.....	697,904	582,572
Depreciation	158,032	134,487
Amortization.....	52,011	52,383
	3,357,388	2,957,863
Earnings before income taxes	1,014,840	1,239,459
Income taxes:		
Current.....	37,658	62,521
Deferred.....	820,988	677,629
Province of Alberta Royalty		
Tax Credit.....	(500,000)	(390,657)
	358,646	349,493
Net earnings	\$ 656,194	889,966
Earnings per share.....	\$ 0.06	0.09